

**Northumberland County
Council**

Annual Audit Letter

On the 2008/09 Audit

December 2009

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1. Key messages

The Statement of Accounts were closed and prepared in accordance with the agreed timetable. The Council maintained a high quality of financial reporting however a small number of adjustments were required to the accounts prior to the audit opinion being issued.

We signed the audit opinions on the Pension Scheme Accounts on the 28 September 2009 and on the Statement of Accounts on the 30 September 2009.

We did not identify any material weaknesses in the financial reporting systems and this fact was communicated to the Audit Committee in our “Report to those charged with Governance” on 28 September 2009. This report was formally considered by the Committee at that time.

The Whole of Government Accounts return was presented for audit after the deadline set by HM Treasury. We signed the audit opinion on the Whole of Government accounts return on 1 October 2009 in line with the required deadline.

The Council scored 2 for Use of Resources which means it is “performing adequately”.

The Council has experienced an unprecedented level of upheaval during the Local Government Reorganisation (LGR) implementation. This process was well managed and the results for the year should be considered in the context of the additional strain placed upon management as a result of this reorganisation.

Action needed by the Council

The Council needs to:

- continue to focus on delivering efficiencies and financial balance whilst clarifying and delivering against its priorities. The completion of the transition process and maximising opportunities for transformation following LGR are key to this;
- continue to focus on meeting the reporting timetable, whilst striving to further improve quality standards of all deliverables and ensuring compliance with the applicable guidance;
- consider the implications for the financial statements of the local government reorganisation and specifically address the issues raised in the audits of Wansbeck DC and Blyth Valley BC in addition to ensuring that appropriate systems and processes are in place to capture the information specifically required by the 2009 SORP for reorganisation authorities;
- develop and monitor progress against the Use of Resources action plan; and

- increase its focus on International Financial Reporting Standards implementation to ensure that the required timescales are met.

2. Purpose, responsibilities and scope

The purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2009.

Although this letter is addressed to the members of Northumberland County Council (“the Council”), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Council’s website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

Responsibilities of the auditor and the Council

We are appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Councils.

As the Council’s appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we have responsibilities in two main areas:

- the Council’s accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) which for this year incorporated the new Use of Resources methodology.

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISA plus”) as adopted by the UK Auditing Practices Board (“APB”). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Statement of Recommended Practice for Local Authorities 2008 (“SORP 2008”).

3. The audit of the accounts

Key issues arising from the audit of the accounts

We issued an unqualified opinion on the Council's 2008/09 accounts on 30 September 2009, in accordance with the deadline set for local authorities. Our opinion confirms that the accounts present fairly the financial position of the Authority and its income and expenditure for the year.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was presented to the Audit Committee on 28 September 2009 and the key issues discussed.

The key issues raised in the report concerned the treatment of the Icelandic Bank investments, the valuation of the Council's investment in Newcastle International Airport Limited and the valuation of the provision created in respect of the legal claims lodged against the Council by employees seeking compensation for perceived unequal pay. Investigations into this final issue resulted in significant adjustments being made to the balances initially presented for audit.

We received a complete set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. Amendments were made to some of the disclosures to bring them into line with the 2008 SORP, the parts of the financial statements relating to the key issues noted above and in respect of certain other minor quantitative and typographical corrections.

We issued an unqualified opinion on the accounts of the Local Government Pension Scheme on 28 September 2009, in accordance with the deadlines set for the scheme.

Audit certificate

When our audit is complete we are required to certify the closure of the audit. The audit certificate was issued on 30 September 2009.

4. Value for money

Background

Under the Code of Audit Practice, we are required to give a 'yes/no' opinion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This is known as the value for money conclusion and is given within our audit report on the Council's Statement of Accounts.

We are also required to assess how well Councils manage and use their financial resources by providing scored judgements on the Council's arrangements in three themes as specified by the Audit Commission. This is known as the Use of Resources ("UoR") assessment.

The UoR assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes that focus on:

- sound and strategic financial management;
- strategic commissioning and good governance; and
- the management of natural resources, assets and people.

Value for money conclusion

In line with guidance received from the Audit Commission we assessed the Councils arrangements and issued an unqualified value for money conclusion for the 2008/09 financial year. This means that we are satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year in all areas considered under the UoR methodology.



4. Value for money (continued)

Use of Resources

This year the UoR assessment has been made more demanding than previous assessments. The KLOE are more broadly based than previously and focus more on value for money achievements, outputs and outcomes rather than on processes. Separate assessments are required for the Council and Northumberland Fire and Rescue Service (NFRS).

We assessed the Council's and NFRS arrangements across three themes. The scores for each theme are based on the scores on the underlying Key Lines of Enquiry (KLOE). Each KLOE was scored on a scale of one to four, with four being the highest.

Overall, the Council and NFRS each scored a 2 for UoR which classifies them as "performing adequately". The scores by theme are outlined below. The detailed KLOE scores are included in Appendix 1.

Theme	Council Score (out of 4)	NFRS Score (out of 4)
Managing finances	2	3
Governing the business	2	2
Managing resources	2	2

Key issues arising from the review of the Council's use of resources

Key issues arising have been discussed with senior officers and a separate report on UoR will be issued shortly. This will summarise the detailed KLOE assessments and suggested areas for development. Arrangements in place in each theme area are basically sound and key to achieving improved scores will be the Council's ability to demonstrate improved outcomes across service areas.

4. Value for money (continued)

Risk focused work

Several specific risks were identified in our audit plan together with our proposed response to those risks. This has been kept under review to take into account developments within the Council during the year. Our work and the key issues arising are summarised below:

- LGR transition – our work focused on review of the project management arrangements, monitoring progress against the Day 1 Transition Plan, financial management arrangements particularly the preparation of the medium term financial plan and management of IT changes. The transition process was well managed and no major issues arose in respect of processes implemented. The financial position remains the key concern with reliance on non-recurring measures such as the capitalisation of redundancy costs to achieve a balanced budget in 2009/10. The medium term financial plan established in 2009/10 focused on achieving a balanced position rather than delivery of priorities which were not defined at that time;
- governance arrangements with Northumberland Care Trust in relation to Adult Social Services – our work was intended to be focused on the partnership agreement which was under review by the Council and Care Trust. Delays in this process caused delays in our work which has not yet been completed. This has been included in our audit plan for 2009/10;
- home to school transport – we issued a report in 2007 identifying a number of areas for improvement. We undertook follow up work and found that progress had been made but changes in staff within the service and difficulties in accessing information have delayed the completion of our work which has now been deferred to our 2009/10 audit plan;
- Putting the Learner First – our review of the project management of the first phase of the programme did not identify any major issues. Further follow up work in this area has been included in our 2009/10 plan although it is currently on hold pending clarity over the Council's future plans.

Looking forward

The Council faces significant challenges in completing the LGR transition process and achieving a balanced financial position, particularly as there is currently reliance on short term measures such as the capitalisation of costs. The financial pressures will require difficult decisions to be made which will be even more challenging given the political situation of “no overall control”.

5. Other matters

Reports issued

A listing of the reports issued during the course of the 2008/09 audit is included in Appendix 2.

Analysis of audit fees

An analysis of audit fees is shown in Appendix 3 to this letter.

Independence and objectivity

In our professional judgement, our policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

Grants

We have undertaken work during the year on various grant claims made by the Council. Work remains to be completed in respect of two grants pertaining to the Pegswood bypass project, the claim in respect of the Single Programme funding obtained from One North East under the delegated grant arrangements and a further Single Programme project which was funded directly by One North East.

International Financial Reporting Standards (“IFRS”)

The Council will be required to prepare IFRS compliant accounts for the year-ending 31 March 2011 and therefore comparative IFRS balances for the year from 1 April 2009 to 31 March 2010. The Whole of Government Accounts return for 2009/10 will also be required to be submitted under IFRS.

Finance staff will be leading on the transition to IFRS. Whilst no formal project plan is in place, responsibility for the transition has been allocated, and the data capture and analysis has begun and external consultants have been engaged where the Council believes it necessary. Staff have attended various technical/professional training sessions to date. We have recently completed an Audit Commission return on the Council’s state of readiness for IFRS and concluded that the Council is not currently on track and there are some significant challenges ahead. We understand, through contact with management since this work was completed, that work has progressed in some of the key areas and we will continue to work closely with the Council to assess progress against the required timescales.

6. Closing remarks

This letter has been discussed and agreed with the Chief Executive and the Senior Management Team. A copy of the letter will be presented at the Audit Committee on 20 January 2010.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Council's own agenda. We recognise the value of your co-operation and support.



Deloitte LLP

Chartered Accountants

Newcastle, England

18 December 2009

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national use of resources study data and methodology as they are derived solely from the Audit Commission.

This report sets out those audit matters of interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Appendix 1: Use of resources scores (by KLOE)

Overall area	KLOE	Council score (out of 4)	NFRS score (out of 4)
Managing finances	1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	2	2
	1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	2	3
	1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	3	3
Theme total - Managing finances		2	3
Governing the business	2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2	2
	2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2	2
	2.3 Does the organisation promote and demonstrate the principles and values of good governance?	2	2
	2.4 Does the organisation manage its risks and maintain a sound system of internal control?	3	3
Theme total - Governing the business		2	2

Appendix 1: Use of resources scores (by KLOE) (continued)

Overall area	KLOE	Council score (out of 4)	NFRS score (out of 4)
Managing resources	3.1 Is the organisation making effective use of natural resources?	2	-*
	3.2 Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs	2	-*
	3.3 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	-*	2
Theme total - Managing resources		2	2

* not applicable in 2008/09. In 2009/10 the Council will be assessed against KLOEs 3.2 and 3.3 while NFRS will be assessed against 3.1.

Appendix 2: Reports issued re 2008/09 audit

Report	Date issued
Audit Plan	July 2008
Review of the 2009/10 budget*	February 2009
Report on Icelandic Bank investments*	March 2009
Report to those charged with governance on the 2008/09 Council audit	September 2009
Report to those charged with governance on the 2008/09 Pension Fund audit	September 2009
Annual Audit Letter	December 2009

* key findings were detailed in the prior year Annual Audit and Inspection Letter issued in March 2009

Appendix 3: Analysis of professional fees

	2009 £'000	2008 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with Section 5 of the Audit Commission Act 1998	337	291
Fees payable in respect of the certification of grant claims and returns of the Council	35	39
Total	392	330



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